

What is an ETF or ETN?

Guide to Exchange Traded Funds and Notes versus Mutual Funds

A Market Brief™

by

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Summary

An exchange traded fund (ETF) is a communal vehicle for investment, as is an exchange traded note (ETN). This primer profiles the duo of instruments and compares them to mutual funds. The relative merits of the securities are explained, along with the grave risks both blatant and subtle. The serious investor has to juggle the crucial factors in order to thrash out a robust program of investment.

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As a supply tool for investment, the *exchange traded fund* (ETF) has enjoyed explosive growth since its debut on the stock market. To a lesser extent, the story is similar for the *exchange traded note* (ETN). The popularity of these vehicles stems from the ease of investing in a diversity of assets at low cost.

An ETF is an investment pool whose shares are listed on a bourse. For this reason, the securities can be bought and sold just like any other stock by way of an equity account at a brokerage firm.

From a historical stance, the traditional form of communal investing lies in the *mutual fund*: a commercial trust whose shares are offered for sale directly to the general public. In other words, an investor deals with the operator of the collective pool in procuring and unloading the units. By contrast, the shares of an ETF are traded amongst the actors within the stock market.

This primer begins by profiling the exchange traded fund. One topic deals with the similarities and differences between an ETF and a mutual fund. Another issue involves the contrast between active and passive modes of investment in tending a portfolio of any kind. A third and related factor concerns the role of an index fund as a showcase of the passive approach to investment.

A fourth dimension lies in the face-off between direct and indirect types of widgets for investing in a given market. The duality of schemes, also known as physical versus synthetic modes, is especially relevant to the realm of exchange traded pools.

A fifth, and related, item on the menu is a type of synthetic product known as the exchange traded note. This security resembles an equity in that it is listed on a stock exchange but in fact represents a form of debt.

At the dawn of the millennium, the ETF market has grown at a giddy rate. A happy outcome is a plethora of choices for the thoughtful investor bent on drumming up a robust portfolio.

On a negative note, though, a disturbing trend lies in the profusion of shaky vehicles cobbled together by a passel of peddlers. Unknown to the bulk of investors, the flimsy schemes adopted by the opportunists suffer from excessive risk in mottled ways.

In the din and smog of the ETF field, the mass of investors have a patchy grasp of the tactics employed by the operators along with the dangers in store. Amid the pother, the upsurge of exchange traded pools has been setting the stage for a blowup of massive scale in the financial tract.

As a move in the right direction, the first task of the prudent investor is to understand the distinctions between motley types of funds. The second step is to grasp the crucial features and veiled dangers lying behind the litter of exchange traded rigs.

An exemplar lies in an index fund whose function is to track a popular benchmark of the market. Even for a straightforward task of this sort, the actual performance of the vehicle may differ a great deal from the perceptions of the investing public.

A case in point is an ETF whose putative goal is to track the price of crude oil. Sadly, though, the vehicle has a custom of trailing behind its quarry by a woeful amount with each passing year. We will examine this dire case in detail later on.

More generally, the structure and behavior of investment funds can differ greatly from the perceptions and expectations of the mass of investors. To compound the quandary, the prospect of a blowup – along with the scale of the aftershock – are apt to reach a peak at the worst possible moment; namely, a synchronized blowup of the financial markets.

For a medley of reasons, then, the earnest investor takes care to understand the true nature of exchange traded products along with the techniques employed by their custodians. In this effort, the guidelines laid down below should serve as the bedrock for building up a sturdy program of investment.

Climb and Slide of Mutual Funds

As we noted earlier, a mutual fund is a collective vehicle for investing in a given market. In this light, the scope of the charter could be broad as in the case of the stock market as a whole. Or the target could be narrow, as in the likes of transportation firms or sapling ventures, soft commodities or hard currencies.

Mutual funds came of age during the autumn of the 20th century. On the whole, the investment pools dealt with the stock market and focused on some niche or other. For instance, a particular fund might deal with large companies, another with financial firms, a third with growth stocks, and so on.

Mutual funds came to capture the imagination of the investing public along with a hefty chunk of their savings. In their heyday, the vehicles were so popular that the communal pools within the U.S. alone were roughly twice as numerous as the myriad stocks jostling for the investors' attention on the domestic bourse.

For the vast majority of mutual funds, the declared objective was to outrun the benchmarks of the market in their respective fields. As an example, a pool that invested in large companies might traffic in the equities of the heavyweights in the hope of beating the Standard & Poor's index of 500 giants listed in the stock market.

Unfortunately, the swarm of mutual funds were unable to outpace their chosen benchmarks. On the contrary, the hustlers as a group had – and continue to have – a proven record of lagging behind their targets year after year.

One reason for the crummy performance lies in the constant drain of maintenance fees imposed on each portfolio. On one hand, the *administrative toll* varies from one fund to another. In spite of the variation, though, a representative figure used to be a couple of percent each year of the value of the assets under management.

In the stock market, the leading benchmark employed by the professionals – be they engrossed practitioners or standoff researchers – lies in the S&P 500 index. During the first few decades of their existence, mutual funds on average had a habit of trailing comfortably behind the flagship benchmark. More precisely, the *performance lag* during the early decades amounted to a couple of percent each year.

On a cheerful note for the investing public, the burden of maintenance fees gradually dwindled to 1% a year on average then drifted even lower by the turn of the millennium. Despite the lighter load, however, the bottom line for the investing public remained the same: the vehicles as a group trailed behind the chief yardstick of the bourse as well as the respective benchmarks in their chosen fields.

In fact, the gap in performance was pretty consistent with the toll of maintenance charges, whatever the cutout happened to be. More precisely, the average lag in performance was around 2% when the mean overhead was 2% a year; then the gap declined to around 1% when the average fee was 1%; and likewise for other values of the administrative load.

Based on these figures, the conclusion was plain enough. In the aggregate, the oodles of time and effort put in by the operators in the hope of beating the market all came to naught. Despite the lush salaries they took home, the army of professional managers was in effect doing nothing more than picking stocks at random.

After decades of underperformance by the horde of mutual funds, the mass of investors began to grow weary of fanciful pitches about beating the benchmarks of the market. Instead, the disgruntled patrons gave up hope of trumping the yardsticks at all.

In their chastened state, the sober folks turned to the goal of merely keeping up with the market beacons. In other words, a swelling throng of investors came to realize that not losing out was in itself an unusual and worthwhile feat.

Active versus Passive Ploys

As we have seen, the standard mission of mutual funds in their nonage was to outshine the benchmarks of the market. To this end, the hustlers darted in and out of the bourse, trading stocks in line with their shifting views on the prospects for the market downrange. This type of strategy represents an *active* approach to investment.

On the whole, though, the objective of trouncing the market was – and continues to be – nothing more than a pipe dream for the mass of players be they full-time professionals or part-time amateurs. The usual ploy for trumping a yardstick is to

pick the most frisky assets in the arena. Lamentably, however, the bouncy widgets are also apt to be the most flighty, flimsy and risky.

Not surprisingly, the twitchy jiggers tend to break down severely when the market hits a rough patch, as it's bound to do from time to time. Given the losses incurred, the investors are fated to lag behind their chosen benchmarks over the long haul.

Hidden Dangers

Whenever the market flops, the ditsy herd has a custom of fleeing the scene en masse. In rushing for the exits, the quitters dump their holdings at firesale prices. The stakes thus abandoned run the gamut from individual stocks to collective pools.

One fallout is a trampling of common stocks as well as other assets held by the communal funds. In addition to the cutdown of the primal assets within the portfolio, each of the spurned pools has to contend with the outrush of capital as its spooked clients withdraw gobs of money in a tizzy. The upshot for the operators is a double whammy of imploding assets and shrinking capital.

On one hand, the maintenance charge for each pool is apt to remain constant in terms of the percentage of the assets under management. Even so, a shrunken base of capital means that the custodians will earn a smaller fee in terms of absolute dollars.

At some point, the stunted intake will be too meager to support the plump salaries and plush offices of the caretakers. In that case, the custodians have scant choice but to disband the pool and return the remnants of the capital to the crew of loyal patrons who have refrained from jumping ship thus far.

When a communal fund goes kaput, the dropout is removed from the databases that track the current lineup of investment pools. After the purge of the washout, its gruesome performance in the recent past does not show up in any survey of the live outfits in the field; it matters not whether the latest window of evaluation happens to be a month or a quarter, a year or any other timespan.

In this way, the worst scores are filtered out from every review of performance for the stragglers in the running. The upshot is in effect a cover-up of the actual experience for the entire population of entrants that had taken a stab at the game of investment.

Due to the whitewash, the "average" return for any sampling of survivors – whether reported by a trade association, a news agency, or any other source – does not paint a realistic picture of the marketplace. The statistical tally, warped as it is, ends up overstating the proficiency of the entire swarm. For this reason, the reported shortfall of performance for the communal gigs compared to their target benchmarks in fact represents only a partial view of the dreary state of affairs.

This type of bias, caused by selective sampling, is a pervasive snag in any domain where the deadbeats are excised from the records. More generally, the illusion of performance in the circus of finance differs a great deal from the reality. The markets disguised by the humbug include individual stocks as well as communal pools.

In this way, the fudging and bunco show up to some extent in the vale of mutual funds. On a positive note, though, the regulators in the public sector do impose a modicum of restraint on risk-taking by the operators in this corner of the financial jungle. Thanks to the oversight by the watchdogs, mutual funds do not break down in droves as a matter of course. For this reason, the bias due to survivorship in this domain is a bane of modest size for the mass of investors.

Sad to say, however, the statistics are grossly twisted in other fields where the duffers are plagued by high rates of attrition. The most treacherous niche lies in the swarm of freewheeling pools known as *hedge funds*.

Due to the spate of bad press they received during the financial flap of 2008, the wildcats of this breed have made an effort to mask the true nature of their activities. To this end, one popular ruse is to refer to themselves by newfangled tags such as *alternative asset managers*. Apparently, painting lipstick on a pig will impress sheep of a certain persuasion.

As a group, the hucksters have a custom of piling up scads of risk then going bust as a result. In fact, even the hotshots – namely, the lucky few that have managed to grow so large as to have their records open to public view – make waves for a while then drop out at the awesome rate of one-half of their number every couple of years (Kim, 2011).

After taking into account the warpage due to survivorship and other forms of bias, hedge funds as a group perform the astounding feat of losing money over time. More precisely, the gross return on investment lags behind the null payoff from a wad of cash tucked under a mattress.

In addition, this remarkable exploit is achieved before adjusting for the cutout of billions of dollars a year in so-called “performance fees” during the lucky spells that crop up before the bets go sour and the funds go splat. In other words, the gamesters lose money over the course of their lives, before even taking into account the cutout of billions of bucks during the transient swells to the upside before they break down for good. The grisly turnout is par for the course regardless of the conditions in the marketplace at large; that is, whether the financial forum or the real economy happens to be expanding or contracting.

To recap, mutual funds in the aggregate merely lag behind the benchmarks of the market by a modest amount. By contrast, hedge funds in the aggregate lose money in spades; in particular, the purse for even the clients of the top tier of gambling pools lags far behind a pile of cash buried in the ground.

At the opposite end on the scale of discretion, a *passive* approach to investment involves no effort to beat the benchmarks of the market. Instead, the goal is merely to keep up with a given beacon.

An example involves an investment trust whose sole function is to own a stockpile of gold. In that case, the value of the inventory will rise and fall with the price of the yellow metal in the global marketplace.

Another type of passive scheme involves a pool whose mission is to replicate the behavior of a compound benchmark. An example of the latter is a gauge based on a basket of stocks or a clutch of currencies.

For instance, a given fund could be designed to track an index of midsize firms listed on the bourses of the emerging regions of the world. Another sample involves the average price of a bundle of soft commodities, as in the case of cotton and wheat, in the global marketplace.

Due to the track record of underperformance by the horde of active funds, a growing throng of investors have abandoned the traditional grail of beating the market. Since the turn of the millennium, legions of folks have turned instead to passive vehicles whose express goal is to replicate the benchmarks – no more, no less – before allowing for a haircut to support the cost of running the gig. As we saw earlier, a modest fee is levied by the operator in order to pay for salaries, offices and the like.

At this stage, we should note that a growing band of mutual funds has responded to the surge of demand for the *passive* approach to investment by rolling out brand-new pools of this stripe. Since the turn of the millennium, however, the bulk of the demand for tracking funds has been met by a novel type of vehicle in the form of the exchange traded fund.

As in the case of a mutual fund, an ETF could be structured as an active pool or a passive rig. On a sober note, however, we would expect an ETF managed in an active fashion to be just as likely as a mutual fund to lag behind its target benchmark.

Given the fading luster of proactive pools, the bulk of newborn funds have been spawned as passive organs. The demure funds of this breed offer the investor nothing more than the opportunity to keep up with a market yardstick before adjusting for the burden of overhead.

In short, the standard form of an ETF is an index fund whose role is to replicate the fortunes of a market benchmark. The administrative charge on a tracking fund is wont to be a fraction of 1% each year of the assets under management. Thanks to the lean setup, an ETF designed properly and steered soundly is wont to replicate the fortunes of its target benchmark with only a piddling lag in performance.

Travails of Index Funds

As we noted above, an index fund tends to veer somewhat from its target benchmark for a number of reasons. The disparity shows up to a greater or lesser degree for every class of asset running the gamut from stocks and bonds to commodities and currencies.

One reason for the shortfall springs from the burden of maintenance fees imposed on the vehicle. In some cases, the annual load comes out to 1% or so of the total value of the portfolio.

Another reason for the divergence has to do with the distinction between a virtual index and an actual portfolio designed to replicate the touchstone. To bring up an example, consider a tracking fund whose goal is to mirror the Dow Jones Industrial Average (DJIA).

The latter index covers the stocks of 30 companies in the real economy whose fortunes wax and wane over time. For this reason, a given equity might flourish for months, years or decades then run out of steam and break down in due course.

In this dicey environment, the trustees of the Dow index monitor the stocks on an ongoing basis. From time to time, the guardians throw out the flagging members and replace them with rising stars.

Whenever the roster is modified, a real fund that replicates the yardstick has to follow suit. For this reason, an index fund is in actuality a quasi-passive vehicle rather than a fully inert rig. The portfolio requires a modicum of intervention by the stewards in order to implement the occasional tweaks to the target benchmark.

If the holdings within the commercial pool are sizable, then the caretakers are likely to spread out the sale of the outgoing stock over the span of a few days or weeks. The reason is that the very act of dumping a huge pile of shares in short order will depress the price of the equity.

After the spate of selling, however, the market will likely recover from the swoon in price to some extent. In that case, the portfolio ends up showing a small but immediate loss compared to its benchmark.

On the other side of the ledger, the story is similar for the purchase of the incoming stock. The shares will have to be bought in tranches of moderate size. And even then, the average cost per share is apt to be higher than the price at the outset when the change to the Dow benchmark was first announced.

In brief, the mean price fetched by the outgoing stock is apt to be lower than the initial price when the changeover was declared by the guardians of the benchmark. Moreover the average cost of procuring the newcomer will likely exceed the price level at the beginning of the switch. The upshot is to grind down the portfolio both coming and going during each substitution of an incumbent within the index.

By contrast, the trustees of the Dow benchmark simply make use of the latest price in the market on the date that the changeover takes place. The same is true for the value of the newfound equity. But each of these figures is wont to be more favorable than the actual price encountered by the handlers of a real portfolio.

To add to the hang-up, a live fund has to pay fees to a brokerage firm each time it buys or sells a security. Granted, certain players might be able to offset the cost of the trades in some way.

An example of the latter is found in a small bonus for vigorous participation in the game. As a backdrop, the operator of a stock exchange may pay a smidgen of cash to a buyer or seller depending on the number of shares they trade. In doing so, the goal of the benefactor is to provide an incentive for heavy trading as a way to increase the liquidity in the marketplace.

By received wisdom, a liquid market is more attractive than a viscous one for the entire throng of participants. But that's not always the case in practice. That is, a ramp-up in turnover can actually hurt the investing public.

An example in this vein involves a software agent that jerks around the price level while darting in and out of the market within fractions of a second. An algorithmic trader of this ilk has a custom of jumping on the bandwagon during the fleeting hops and dips of the market.

Unfortunately the blizzard of trading exacerbates the swings to the upside as well as downside (Kim, 2011). The upshot is to make the market less attractive to the mass of investors.

For this reason, a policy of rewarding the actors in the ring for prolific trading can be counterproductive. Whatever the final outcome, however, a monetary carrot of this sort may be available in some cases to certain players.

Even so, the piffling amount offered for profuse trading has no meaningful impact on the small fry. Rather, the mass of investors end up with a net cost since the commissions to their brokerage firms are prone to exceed any subsidies they may receive for ample trading.

Another type of drain on a real-world portfolio stems from the levy of registration fees to the stock exchange where an equity is listed. In this way, a change in the ownership of shares incurs an administrative cost that takes another wee bite out of the account.

Furthermore, the caretakers of an index fund have to dash into the market in response to the ceaseless flux of interest from the investing public. For instance, an inrush of capital from newfound customers will prod the stewards into buying additional shares of stock.

To bring up another nettler, tracking a compound benchmark requires the purchase and sale of a multiplicity of stocks. More precisely, each equity covered by a given benchmark has to be procured in exact proportion to the weighting used within the index.

The story is similar when the clientele withdraws a heap of cash from the tracking fund. The stewards need to sell off a proportionate amount of every stock within the

target yardstick. Due to the endless flurry of trading, the portfolio faces a constant drain of transaction costs.

In some cases, a communal pool could be ground down by additional millstones. For instance, consider an index fund that tracks the gold market by holding a stockpile of the yellow metal. The operator will have to pay for the cost of leasing a secure location, whether the task is discharged by an in-house group or farmed out to an external contractor.

By contrast, the cost of safekeeping has no bearing on the price of gold in the commercial market. The story is similar for the transaction costs entailed in buying or selling the commodity.

For a raft of reasons, then, an index fund is wont to trail behind its quarry rather than move in lockstep. If the pool is designed with care and managed with prudence, however, the gap in performance should be paltry for all practical purposes.

Physical versus Synthetic Assets

One way to classify any type of fund is to consider the nature of the assets in hand. In the direct approach to investment, the portfolio contains the actual objects tracked by the benchmark.

To cite an example, a straightforward way to replicate the Nasdaq index of 100 leading stocks is to buy and hold the equities covered by the yardstick. The direct approach to tracking a benchmark is known as the *physical* mode.

By contrast, the indirect ploy relies on a substitute widget that is linked in some way to the target benchmark. In the case of the Nasdaq index, a tracking fund could make use of the corresponding contracts traded in the futures market. The investment scheme based on secondary tokens is called the *synthetic* approach.

On a negative note, though, the nomenclature is misleading for a couple of reasons. To begin with, a lot of financial assets in the modern economy take virtual form rather than concrete shape.

A widespread example lies in a government bond that's conjured out of thin air and issued as a digital document. In the modern era, the vapory widget is apt to be an artificial gaff composed of a bunch of bits within a computer system rather than a certificate stamped out of paper or any other material that can be touched or torn, smelled or eaten. In other words, the asset in its raw form is a synthetic and ethereal gimcrack rather than a natural or physical object.

Even so, a portfolio based on an asset in its primal form is labeled as a "physical" fund. That's the case even if the widget happens to be as intangible as a virtual bond.

By contrast, a vessel that tracks a chosen market by handling a derivative token is branded as a "synthetic" pool. An example of the latter is a trust that mirrors the

credit market by buying and selling a series of futures contracts based on interest rates.

Clearly, a label such as “direct” or “original” would be more descriptive and sensible than the moniker of “physical” for a fund that deals with assets in their raw state. In a similar way, an adjective such as “indirect” or “offshoot” would be more meaningful than the epithet of “synthetic”.

Yet the perverse terminology has taken root in the carny of finance. From a larger stance, the literature of financial economics brims with glib notions of ideal markets governed by perfect logic and infinite wisdom. Despite the fanciful theories beloved by the priesthood, however, the real actors in the ring can’t be accused of being overly rational. The parsimony of common sense applies to the jousts at center stage as well as the watchers in the wings.

A notable example of an indirect fund lies in a vehicle whose main function is to track the price of crude oil. The communal pool, called United States Oil, trades on the American bourse under the ticker symbol of *USO*. The vessel holds virtual assets in the form of futures contracts based on crude oil as well as kindred wares such as heating oil.

Any type of fund, whether physical or synthetic, is of course buffeted by the goings-on in the target market. Another driving force lies in the deadweight of operating costs ranging from transaction fees to office expenses.

On the other hand, an indirect fund faces an additional liability in comparison to a direct portfolio. More precisely, the discrepancy between the target asset and the offshoot instrument poses another layer of risk for the investor.

For a variety of reasons, the value of a secondary widget can diverge from the price of the primary good. A showcase lies in the futures market. To delve into this issue, we begin by noting that each contract in the trading pit is marked by a maturity date upon which the instrument expires.

When a futures contract reaches the end of its lifespan, the stewards of the communal fund are obliged to replace the defunct asset with a youthful counterpart.

Unfortunately, the cost of the replacement tends to differ from the worth of the hoary widget upon its demise.

In the modern era, the price of crude oil has a habit of trending upward despite the inevitable sputter of backtracks from time to time. The ascent of the raw material springs from the upswell of demand for energy from the emerging regions of the world as they build up their jejune economies.

From the standpoint of the producers in the marketplace, the commodity is required in order to run factories and heat offices, drive freighters and propel airplanes.

Meanwhile, on the consumption side of the logistic chain, the denizens of the newly prosperous nations clamor for their fair share of goodies ranging from cars and

fridges to cellphones and cruises – all of which need petroleum and its byproducts for their fabrication and/or operation.

Given the uptrend for oil over the long haul, the price downrange is prone to be higher than the current value in the marketplace. Moreover, a newly minted contract for the commodity comes with a maturity date that lies further downstream than the deadline for any of its predecessors.

Given this backdrop, the replacement of an expiring contract with a fresh one entails a mismatch of prices. More precisely, the buyer is wont to pay a higher price for the incoming product compared to the outgoing widget.

In this way, the premium paid to roll over a futures contract at each juncture acts as a drag on the performance of the investment trust. This type of friction is a major factor in the rotten turnout of the synthetic pool in the financial sphere compared to the actual value of the commodity in the real economy.

Upon its rollout on 10 April 2006, the USO fund settled at a price of \$68.02 on the first day of trading. On the other hand, the value of the equity shriveled to \$15.59 per share by the end of July 2015 (Yahoo Finance, 2015).

Based on these figures, the stock at the end of the period was worth only 22.9% of its value at the outset. In that case, a loyal patron who suffered through the vicissitudes of the oil market throughout the stretch ended up losing more than three-quarters of their principal. Moreover the poor client during the entire escapade received nothing by way of dividends which could have relieved some of the pain endured.

By way of comparison, the actual price of oil in the commercial market was \$68.29 per barrel on the day that USO debuted. Furthermore the pertinent price at the end of July 2015 was \$47.11 (Energy, 2015).

In relative terms, the raw material at the end of the period was worth around 69.0% of its initial value. Roughly speaking, the commodity itself lost a little *under one-third* of its value over the entire stretch. By way of comparison, its “tracking” fund shrank by *more than three-quarters* over the same spell.

Just for fun, let's take an example of an interval in which the value of petroleum rose rather than fell. In particular, the price of crude oil on 20 June 2006 was \$69.30 per barrel. On the same day, the closing figure for USO was \$65.29 per share.

In contrast, the raw material reached a price of \$107.95 on 20 June 2014. On the same day, the closing value of USO stock was \$39.32 per share.

From these figures, we can deduce that crude oil climbed by 55.8% over the course of eight years. Yet the tracking fund fell by 39.8% over the same stretch.

To put things simply, the commodity pool lost two-fifths of its value during a period in which the target asset surged by more than one-half. The lousy windup for the investor spotlights one of the hazards of dabbling in synthetic funds.

In the larger scheme of things, there are additional ways to track the price of crude oil. For this purpose, one approach is to buy the options linked to the futures contracts. Unfortunately, the use of option contracts comes with its own ragbag of drawcards and drawbacks whose details lie largely beyond the scope of this primer.

Even so, it suffices for us to note here that a buyer of options faces a pernicious threat. More precisely, the uptake of option contracts is apt to generate a chain of losses whose combined impact could well exceed the damage inflicted by the direct use of futures contracts over the same timespan.

Yet another strategy for a commodity fund is to hold an inventory of the raw material. But this method comes with its own baggage of cost and risk.

As we noted earlier, an example lies in the overhead of leasing a suitable facility in order to store the petroleum. Another instance involves the burden of insurance required to guard against natural quakes as well as human foul-ups that could trash the repository. For these reasons, the payoff from holding a physical hoard of oil is sure to trail behind the return on the commodity itself.

More generally, a shortfall of performance is a hallmark of synthetic funds. In this and other ways, an indirect approach to investment comes with a welter of costs and risks that exceed the hazards of investing directly in the target asset.

Even if the chosen market were to perform as expected from the get-go, the communal trust could well turn in a foul result. For this reason, the prudent player has to think twice – if not more – before investing in a synthetic fund of any kind.

Exchange Traded Note

An *exchange traded note* (ETN) is a debt security issued by an underwriting bank. In general the widgets in the credit market have fixed lifespans; and an ETN is no exception to the rule.

On the date of maturity, the bank standing behind an ETN has to redeem the shares by drawing on its own repertory of financial resources, whatever they may be. In other words, the chit is a synthetic product that is backed only by the financial strength of the issuer.

An ETN resembles an exchange traded fund in that the security is listed on a stock exchange. As a result, the instrument offers the investor an alternate way to gain exposure to sundry markets.

For this purpose, the mission of an ETN is to mirror the performance of a market benchmark and/or investment strategy, before adjusting for the cost of operations. An example of the latter is a dribble of commissions to a brokerage firm for executing trades, or the overhead of wages for the custodians of the pool. By contrast to a common practice in the credit market, however, an ETN does not provide the investor with any interest payments in the interim.

Depending on the turnout of the target benchmark, each shareholder should receive the appropriate amount – minus perhaps an administrative fee – upon the date of maturity. For this reason, an ETN has an additional risk compared to an ETF. If the issuer were to go bankrupt in the interim, for instance, then the security would turn into scrap paper.

To recap, an ETN resembles an ETF in that its value depends mostly on the course of a market benchmark along with the investment strategy employed. Even so, the former is not an equity fund.

Moreover an ETN does not own anything. For this reason, the vessel has no intrinsic value other than the capacity of the issuing bank to discharge its obligations in due course.

An investor in an ETN may dispose of their stake prior to the maturity date by selling the security on the stock exchange. In making this move, the shareowner deals with fellow players in the ring.

In the case of a large shareholder, a second tack is to turn in the units directly to the issuing bank: a perk which may be available on a weekly basis. In redeeming the shares, however, the investor might have to pay the vendor an administrative fee.

As we saw earlier, the performance of an ETN depends on a number of factors including the conditions in the marketplace, the strategy employed by the operator, and the burden of maintenance fees. As a representative figure, the administrative load often comes out to a hefty fraction of 1% of the average value of the assets under management over the course of the year.

In the case of an ETN that deals with a foreign target, the jitter of exchange rates in the currency market is wont to play a role as well. For a bunch of reasons, then, the value of the vessel tends to waver on a daily basis and even from one moment to the next.

To take up an example of an ETN, we turn to the iPath family of products issued by a British concern named Barclays Bank. One of the pools within the lineup focuses on a subset of a commodity index compiled by a partnership between Dow Jones of the U.S. and UBS of Switzerland. At the time of writing, the benchmark known as the Grains Subindex Total Return comprised a weighted average of the price levels for a trio of futures contracts traded in America; namely, corn, wheat and soybeans.

From a financial angle, the ETN keeps track of a couple of factors. The main component is the hypothetical payoff from a forthright – meaning non-levered – stake in the futures contracts for the named commodities. The secondary item concerns the rate of interest that would accrue from the capital that has been converted into U.S. Treasury bills – since the latter type of widget may be used instead of cash in serving as the collateral required to buy and hold the futures contracts.

The commodity pool, launched in 2007, trades on the U.S. bourse under the ticker symbol of *JJG*. The ETN is slated to mature in 2037.

In line with earlier remarks, the special draw of an ETN lies in the absence of tracking error with respect to its quarry. More precisely, the issuing bank promises to redeem the units from the shareholder at a price that corresponds exactly – aside from a modest cutout for administrative fees – to the return on the target index coupled with the investment method specified at the outset.

In line with this policy, a large shareholder may liquidate their position by turning in the shares to the bank on a periodic basis such as a weekly interval. Thanks to this privilege, the actual price of an ETN on the bourse tends to closely match its hypothetical value at all times.

Although an ETN is linked to the fortunes of a market benchmark, the security does not have a direct claim on a stockpile of common stock, physical commodity, or any other asset. That is, the pool itself doesn't own anything. Rather, the vessel is backed only by the general ability of the issuing bank to fulfill its commitments.

By way of comparison, an exchange traded fund does hold an asset of some sort. For instance, an ETF dealing with precious metals may own a cache of gold bullion in a vault somewhere. In a similar way, an ETF trained on the equity market ought to hold a portfolio of common stock.

Since an ETN is not secured by any type of collateral, it will break down completely if the underwriting bank were to go kaput. For this reason, an ETN adds an extra layer of risk compared to an ETF.

Madness of the Mob

Whenever a market soars to newfound heights, a horde of pothunters dash into the field with bleary visions of making a killing. The assets racked by bouts of speculation run the gamut from stocks and currencies to commodities and realty.

When the price level zooms beyond the bounds of sanity, the mulish herd remains unfazed and instead spins flimsy excuses to justify its antics. “This time its different”, blare the hotheads to the forlorn voices of reason calling out from the sidelines. “The world has changed, you see, and the old rules no longer apply!!!”

Oh, but they do – time and time again. Thus it was during the craze for digital ventures at the end of the 20th century. Ditto for the housing furor that popped up a couple of years later and raged for half a decade before going poof. And likewise for a bubble of any kind in the real or financial markets.

The zanies caught up in the madness merely delude themselves, for nothing has really changed. Granted, the laws of the market might be trampled in the short run by the stampede of the speculators. Yet the fiber of the market has a way of asserting itself with a vengeance before long. The greater the derangement of the crowd and the louder the denial during the upgush, the bigger the bust and the harder the fall in due course.

In the throes of a feeding frenzy, the zombies shove aside a couple of age-old laws of nature as well as finance. Sadly, though, nothing lasts forever. Moreover, what flares up is doomed to flame out at some point.

In their zeal to latch onto the latest bandwagon, along with their lust for quick profits, the berserk horde compounds its folly by pouncing on levered carts. An example of the latter is an exchange traded fund that promises to pay out twice the return on precious metals.

On the other hand, the sober investor has to stay clear of such gimmickry. Anyone who is serious about growing their nest egg over the long haul has to summon the fortitude needed to say no to manic bets – and likewise shun any other flaky scheme to get rich quick.

To bring up an example, an exchange traded fund may take a levered approach to the upgrowth of natural resources. A case in point is a jigger whose purported goal is to nab 200% of the change in the price of gold.

Such contraptions have become increasingly popular at the dawn of the millennium. Unfortunately, the turbocharged rigs of this ilk come with a couple of blatant flaws. One catch lies in the administrative charge, which often amounts to roughly 1% a year of the total value of the capital under management. A cutout of this magnitude is a heavy cross to bear in the land of exchange traded funds.

Another type of liability stems from the custom of using rickety schemes in order to produce the gearing desired. An example involves the purchase of equity options in order to profit from an upturn in the stock market.

Unhappily for the buyer, an option contract has a way of losing value with each passing day. In fact, the shrinkage is precisely how the sellers of the widgets get to earn their keep.

As a result, the buyers as a group are destined to end up in the doghouse. Not surprisingly, legions of punters who purchase options have a proven record of losing money over time.

The baleful rule holds sway whether a bettor takes up a direct position by procuring a naked option or an indirect stake by way of a communal pool. An example of the latter involves an ETF that seeks to profit from a downturn in the stock market by wielding a type of gimcrack known as the *put* option.

The widgets of this stripe have a custom of losing value over time even when the bourse merely bounces around and ends up exactly where it started. As a result, the customers of the bearish fund lose money with each cycle of prices in the ebb and flow of the market.

The precise amount of the forfeit will of course depend on a number of factors. An example of the latter is the volatility of the market along with the premium placed by the investing public on the value of the options.

For this and other reasons, the precise turnout will differ from one vessel to another, and from one day to the next. Even so, myriads of investors in levered funds have lost their shirts in the past. And fresh waves of wild-eyed chumps will doubtless continue to repeat the performance in the future.

Bane of Leverage

A simple way to explain the hazards of gambling in the financial ring is to take up a case study. For this purpose, we turn to a couple of levered funds based on a benchmark of the grandees listed on the Nasdaq exchange. Although the precise number of stocks within the circle may vary over time, the index comprises around a hundred titans of the bourse.

The touchstone takes into account the dividend payouts from the constituent stocks. In other words, the value of the yardstick is nudged upward each time an equity within the group throws off a dividend payment.

An example of a levered pool based on this benchmark lies in the ProShares Ultra QQQ fund. The goal of this vehicle is to garner twice the return on investment, before adjusting for fees and expenses, of the daily performance of the Nasdaq 100 index. Launched in June 2006, the ETF trades on the U.S. bourse under the ticker symbol of *QLD*. The operators levy a maintenance fee of 0.95% each year of the total value of the assets under management.

On the flip side, a sibling vessel takes a bearish view of the same market. The goal of the ProShares UltraShort QQQ fund is to snatch twice the *inverse* of the daily return on the Nasdaq 100 index. To wit, the vehicle is meant to advance by 2% for each fallback of 1% by the target index.

The communal fund came to life in July 2006 under the call sign of *QID*. Since then, the vessel has shouldered a maintenance charge of 0.95% per year.

To gauge the performance of the funds in relation to their respective goals, we will invoke the most popular portal among the investing public; namely, Yahoo Finance (finance.yahoo.com). Based on the information at this site, the history of stock prices for the QID fund began on 13 July 2006.

On that date, the Nasdaq 100 benchmark reached the 1,478.16 level at the end of the trading session. After that stage, the touchstone bounced around for nearly three years. Then the index returned to its starting point and closed on 26 June 2009 at the 1,480.20 mark.

From the last two figures, we can infer that the touchstone budged by a mere 0.14% from start to finish. In a word, the change in price was pretty much zilch.

Given this baseline, we can perform a similar analysis for the duo of levered funds over the same timespan. We begin with the record for the communal pool whose mission is to move in the opposite direction as the Nasdaq index.

In general, we need to consider the administrative actions taken by the stewards in order to get a lucid view of the outcome. In this light, the key events include the payout of dividends as well as any regressive moves in the form of stock splits in the reverse direction.

After taking such moves into consideration, the communal pool at the end of the stretch was worth only 52.6% of its value at the outset. In other words, QID lost nearly half its value in less than 3 years.

Meanwhile, we can calculate the corresponding result for QLD over the same stretch. The communal fund paid out a smattering of dividends but avoided any stock splits during this period. After taking into account the cash payments, a patron of the bullish fund ended up with just 67.5% of their original capital. To put things simply, the investor lost roughly one-third of their moola in a mite under 3 years.

This cameo spotlights the fact that a levered fund, whether of the bullish streak or bearish tone, is an excellent way to lose money as time goes by. That's the case even when the souped-up vessel has the good fortune to survive the rigors of leverage. All too often, though, a grasping fund trying to get rich quick blows up as a result of its high-strung bets.

The penalty to be paid by a daredevil for riding a levered rig will of course depend on a number of factors. An example of the latter lies in the mode of leverage employed by the operators; the extent of the gearing assumed; the scope of volatility in the marketplace; the premium to be paid in rolling over a derivative widget; the spread between the bid and ask prices in an illiquid market; and so on.

For a *mélange* of reasons, then, the flogging suffered by the investor will vary from gig to another and from one day to the next. Even so, a representative loss comes out to 10 to 20 percent of the principal every year from the very act of hanging onto a jerry-built crate.

Additional Forms of Risk

To add insult to injury, the patrons of a jacked-up cart face the aggravation of a wild ride along with the whiplash dished out. Due to the gearing in force, the jalopy soars and plunges with each surge and swoon of the target market. And for all the abuse they endure, the riders get to lose a heap of money with each cycle of prices in the marketplace.

Another instance of a mug's game involves an ETF that relies on a series of customized widgets in order to track a given benchmark. In particular, a *forward* contract is a private agreement that has been tailored to the needs of two parties. An example involves a bank that agrees to provide a merchant with a preset amount of foreign currency at a future date while using an exchange rate which is fixed today.

By way of comparison, a *futures* contract is a standardized product that is bought and sold on the open market. For this type of widget, the terms of the accord are for the most part determined in advance.

The key exception lies in the value of the contract on the day of delivery. On one hand, the official price of the widget is determined by the trustees of the futures exchange rather than the actors in the trading pit. In this way, the arbiters retain the power to quash any attempt by a sleazy character to manipulate the price level at the last minute.

Despite this provision, however, the guardians of the exchange are wont to follow a *laissez-faire* policy. In other words, the settlement price is almost always identical to the last figure decided freely by the traders themselves at the end of each trading session.

In this setting, every deal is mediated by a third party known as a *clearing house* which serves as the guarantor for the transaction. In order to limit its own liability, the intermediary requires each of the buyer and seller to put up a security deposit – known in the trade as the *margin* or *performance bond* – whose amount is monitored on a daily basis and adjusted as needed.

The purpose of the clearing house is to eliminate the risk of default by the principals. As an example, the go-between will ensure that the buyer is compensated even if the seller were to go bankrupt just before the date of delivery.

So far, so good. On the other hand, there is nothing in the system to negate the risk of loss to a trader due to a move of the market in an adverse fashion. In fact, the fundamental role of the futures market is to transfer the potential for loss from commercial parties to risk takers.

A case in point is a farmer who sells a futures contract on a bundle of wheat. Thanks to this move, the planter is compensated by the buyer of the contract if the price of the grain were to shrivel by the time the crop is harvested and sold off in the real economy.

Another sample involves a large investor who holds a diversified portfolio of common stock. When the market happens to be frothy, the adroit player could sell a futures contract on an index of the bourse in order to guard against a potential drop in the value of the holdings.

If the market were to crumble, then the seller of the contract would reap a profit from the inverse position on the derivative. As a result, the loss on the equity portfolio will be offset by the gain on the futures contract.

On the other hand, suppose that the market index were to climb higher instead. In that case, the seller of the contract will lose money on the derivative due to their contrary pose. But the drubbing will be countered to a greater or lesser degree by the profit within the equity account.

As these examples show, a secondary instrument such as a futures contract offers a way for the owner of an asset to guard against the specter of loss on a primary asset. From this stance, the derivative widget serves as a tool for reducing risk.

But the opposite applies to a punter who buys or sells a levered device without owning the target asset to back up their position. In this gambit, the turbo-charged rig is a way to crank up the risk. Unfortunately the plungers in this camp have a long-standing custom of tripping up and going bust in droves.

The situation is even worse in the case of a forward contract. For this type of gizmo, even a winning bet on the target market placed by a fortunate soul may turn out to be a complete flop if their counterparty is unable to meet its obligations.

For this reason, taking up a *forward* contract adds another layer of risk in comparison to the use of a *futures* contract. And even the latter is apt to be a lot more wrackful than the actual possession of the target asset such as a stockpile of common stock or gold bullion.

In the economy at large, hordes of companies lose their moxie and give up the ghost as a matter of course. In this unstable milieu, the sellers of forward contracts are on occasion unable to deliver the goods. In that case, each of the patsies holding the short end of the stick ends up getting burned. Hence the jinx of forward contracts.

To round up, leverage of any kind is a good way for an investor to lose their pants. Clearly, a jacked-up position is especially inapt for a novice who can ill afford to forfeit a heap of money on a single throw of the dice.

As we saw a few paragraphs back, however, levered tools do have their uses under certain conditions. In general, though, the mass of players in the arena would do well to stay clear of levered rigs whether in the form of raw tools or spiked pools.

As a counterpoint, a seasoned player who wants to protect a cache of raw assets can strike out on their own and take direct control of any power tool that seems apropos. The story is similar for the able gamer who takes up a speculative position in the hope of high gain at high risk. For wizards of this stripe, the best tack lies in a forthright exposure to the real thing – as in the case of a futures contract – rather than a levered play through a communal fund.

In view of the pitfalls in store, a collective vessel with high gearing is best suited for the credulous rookie who does not mind paying fat fees for bum schemes that offer lots of opportunity to lose big real quick. By contrast, the heedful player of moderate experience and skill would do far better to stick to upright rigs that hold stockpiles of actual assets rather than synthetic trinkets. Meanwhile the skillful maven playing in the big leagues will strike a professional pose by wielding the power tools in their naked form – such as index options or futures contracts – rather than resort to frankensteins in the form of levered funds.

Wrapup of the ETF and ETN

As a flexible tool for investment, the exchange traded fund has enjoyed riotous growth since its rollout in the financial theater in the winter of the 20th century. Shortly thereafter, the exchange traded *note* appeared on the scene as well. The widespread appeal of the widgets springs from the convenience of investing in a diversity of assets at low cost.

An ETF is an investment pool whose shares are listed on a stock exchange. For this reason, the securities can be bought and sold just like any other stock by way of an equity account at a brokerage house.

From a historical slant, the traditional form of communal pool lies in the mutual fund: a managed portfolio whose shares are tendered directly to the general public. In that case, an investor deals with the custodians of the trust in buying and redeeming the units. By contrast, the shares of an ETF are traded amongst the actors within the stock market.

As a point of departure, this primer unveiled the crucial features of the exchange traded fund. One topic concerned the similarities and differences between an ETF and a mutual fund. Another issue focused on the difference between active and passive modes of investment for a portfolio of any kind, be it a commercial fund or a personal account. A third and related factor involved the role of an index fund as a showcase of the passive approach to investment.

A fourth facet concerned the face-off between direct and indirect types of vehicles for investing in a given market. The pair of contrasting schemes, also known as physical versus synthetic modes, is especially relevant to the world of communal pools.

At the dawn of the millennium, the ETF market has grown at a blistering pace. A gainful outgrowth is the plenitude of choices for the genuine investor bent on drumming up a hardy portfolio.

On a negative note, though, an unsettling trend lies in the profusion of slipshod vehicles cranked out by a gaggle of wanton operators. Unbeknown to the bulk of investors, the flimsy schemes taken up by the opportunists seethe with gobs of risk beyond the usual threats lurking in the field.

In the din and fog of the financial tract, the mass of investors have only a sketchy grasp of the tactics employed by the operators along with the perils in store. Amid the confusion, the upspring of shoddy funds has been setting the stage for a blowup on a massive scale.

As a recourse, the first task of the mindful investor is to fathom the distinctions between motley types of funds. The second step is to plumb the crucial features and veiled dangers lurking below the surface.

A plain example lies in an index fund whose mission is to track a popular benchmark of the market. Even for a straightforward task of this sort, however, the actual

performance of the vehicle may differ wholesale from the perceptions of the investing public.

As we have seen, an exemplar lies in an ETF whose professed goal is to track the price of crude oil. In actuality, though, the deadbeat is wont to lag far behind its quarry with each passing year.

More generally, the structure and behavior of an investment trust can diverge greatly from the expectations and perceptions of the mass of investors. A good example lies in the rampant breakdown of the companies in the real economy along with the utter squelch of the securities they had issued in the financial rink.

To bring up a counterpoint, consider the image of the stock market portrayed by the slick models of orthodox finance as well as popular folklore. According to the conventional view, an equity listed on the bourse is apt to live forever.

Yet the reality differs entirely from the mirage. For the mass of entrants in the financial forum as well as the tangible economy, a lifespan of a couple of years is more of the norm.

Granted, a teeny fraction of the survivors to date may have managed to grow over time and join the ranks of the goliaths. Thanks to their size, the hulks of this stripe have in general earned a reprieve of a handful of years or decades, or perhaps even longer, before they too lose their mojo in the end. Despite the blissful spell along the way, however, the leviathans are themselves fated to keel over and die off in due course.

In the interim, the hapless investor who holds a clutch of raw securities will suffer one blow after another. An exemplar is found in the nonchalant gamer who buys into the dogma of traditional finance and clings to the common stock of an operating company in the false belief that the gambit is an unbeatable strategy for investment. In reality, though, the dotty scheme is an assured path to ruin over the long range (MintKit Core, 2015d).

To compound their woes, the mass of investors face plenty of additional threats. As an example, the risk of a catastrophe – along with the scale of the aftershock – is apt to reach a peak at the worst possible times; namely, a synchronized blowup of the tangled markets.

A fine example cropped up with the financial crisis of 2008 along with the Great Recession. In a perfect storm spanning the real and financial marts, the assets whacked by the bombshell spanned the rainbow from common stocks and corporate bonds to raw materials and real estate.

For a raft of reasons, then, the wise investor takes care to grok the true nature of the communal pools along with the techniques employed by their stewards. To this end, the ground rules laid down in this handbook should serve as a trusty guide in crafting a cogent program of investment.

From a different angle, a type of vehicle that resembles the ETF lies in a debt instrument traded in the stock market. An exchange traded note is a peculiar type of promissory note stamped out by a commercial bank. A savory aspect of an ETN lies in the absence of tracking error vis-à-vis its chosen benchmark. That is, the custodians of the vessel have pledged to buy back the shares without any slippage other than a modicum of administrative fees.

As with debt assets in general, an ETN has a fixed lifespan. Upon the date of maturity, the bank standing behind the security has to redeem the shares by drawing solely on its own storehouse of financial resources, whatever they may be. In other words, the widget is a synthetic product that is backed only by the financial strength of the issuer.

As we have seen, an ETN resembles an exchange traded fund in that the security is listed and traded on a stock exchange. On the upside, the device offers the worldly investor an alternative way to tap into a host of markets ranging from agricultural goods to volatility benchmarks.

From a larger stance, the traditional form of communal vehicle for the mass of investors lies in the mutual fund: a managed trust whose shares are offered for sale directly to the general public. This type of security is especially suited to a fledgling investor on a scanty budget in terms of time and/or money.

A newcomer to the world of investment will find it a simple matter to open an account with the operator of a mutual fund. In that case, the next step is to pick out a broad-based vehicle for growing a nest egg. For this purpose, a fitting choice lies in a tracking vehicle dealing with the pantheon of 500 bigwigs in the stock market.

In addition, a steadfast investor can easily make arrangements for the automated transfer of cash on a regular basis into the chosen pool. The influx of dough would come from a savings account at a commercial bank. An example lies in a monthly allotment of a fixed sum to the tune of \$50, or \$758, or some other figure. This setup is a relatively painless way to grow a nest egg over the course of the years and decades.

On the downside, though, the client of a mutual fund can access only a limited selection of communal pools. In order to expand their choices, the investor will have to set up a brand-new account at a different vendor.

As an alternative tack, the artful investor may simply deal with the slew of securities available in the stock market. After setting up an equity account at a brokerage house, the gamer has the wherewithal to procure any type of equity including the vast selection of exchange traded funds and notes.

In this way, a single account can serve as the nexus for a cornucopia of choices. The goodies on offer include thousands of communal funds managed by a coterie of investment firms rooted in the financial forum. The story is similar for myriads of

common stocks issued by the operating companies plying their trade within the real economy.

To sum up, a dandy way to ride the groundswell of growth in the global economy is to take up tracking vessels in the form of communal funds and commercial notes listed in the stock market. These rigs offer the nimble investor a multitude of ways to fix up a hearty portfolio tailored to their personal array of needs and wants.

Further Information

In sizing up an asset for investment in any domain, the prospective payoff has to be weighed against the risk entailed. The crucial factors to consider are surveyed in the section on *Financial Risk* at MintKit Core (2015b).

A primer titled “How to Invest in Exchange Traded Funds” gives the lowdown on growth and risk for the communal pools. The tutorial also applies the general guidelines to a case study of index funds for the emerging markets of Brazil, China, India and Russia (Kim, 2012).

Tracking funds can provide the genuine investor with a nifty way to outperform the bulk of professional managers including the operators of mutual funds and hedge funds. In fact, the crafty player can pay themselves a cash bonus every year as a reward for their savvy strategy and still outpace the bulk of the pros in the field. This remarkable feat is explained in an article called, “How to Beat the Investment Funds” (MintKit Core, 2015c).

The data available on exchange traded funds is often patchy, faulty and/or misleading. The stumbling blocks, along with a muster of defensive moves for the nimble investor, are presented in an article titled “Cruddy Information on Exchange Traded Funds” (MintKit Core, 2015a).

A spree of unchecked greed and rabid speculation leads to a catastrophic blowout such as the financial flap of 2008 along with the Great Recession. A fiasco of this sort can wipe out billions of dollars at a stroke for legions of luckless patrons standing behind the dippy pools.

Looking at the big picture, the turnout in toto is far worse due to the collateral damage amounting to trillions of bucks in pulped assets for millions of innocent investors huddled on the sidelines but whopped by the bombshell just the same. The dangers of madcap schemes are examined in a book titled, *Wildcats of Finance* (Kim, 2011).

The same volume spells out a bunch of ways to guard against similar flaps in the future by launching a sweeping program of reforms in the public sector. Sadly, though, the measures required are unlikely to be taken by the corps of distracted policymakers anytime soon.

On a cheery note, though, the news from the financial front is not entirely bleak. For the sage investor can take concrete steps to counter the threats to their own financial

health by drawing on the phalanx of pointers laid out in this guidebook as well as the supplementary resources.

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About the Author

Steven Kim is the founder of MintKit Institute, a think tank on investing for sound growth in a global marketplace. The research program spans the spectrum from global trends and market dynamics to world-class ventures and investment strategies. The author has trained and counseled self-starters of diverse backgrounds, ranging from budding entrepreneurs and senior executives to international investors and public officials.

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